

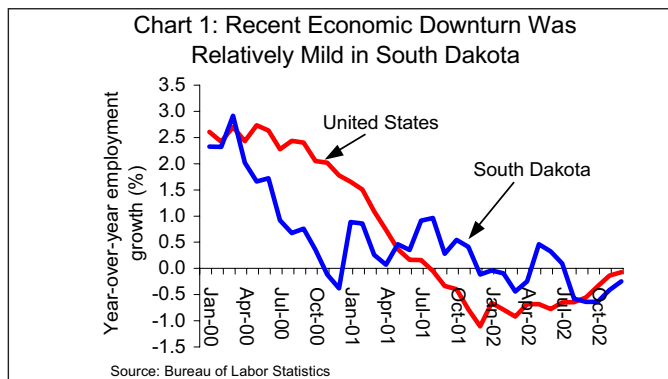
FDIC State Profile

SPRING 2003

South Dakota

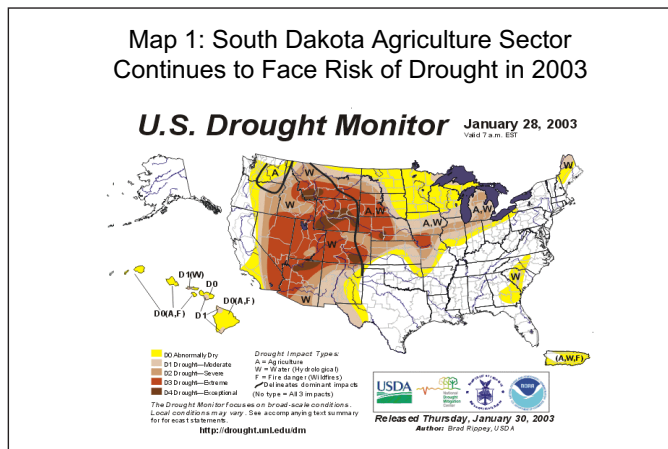
The South Dakota economy was less severely affected by the recession than other states in the Kansas City Region.

- Job growth declined in South Dakota before it did nationwide, during 2000, but the state gained jobs during 2001 (see **Chart 1**).
- Layoffs in the state's manufacturing and mining sectors contributed to periodic declines in employment during 2002.
- Year-end data were somewhat negative, with seasonally-adjusted unemployment increasing from 2.6 percent in September to 3.0 percent in December, while total employment continued to decline in the fourth quarter.



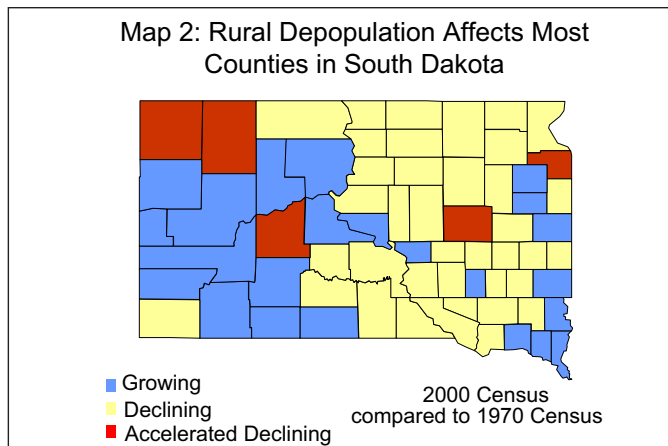
The South Dakota agricultural sector was moderately affected by drought during 2002.

- Drought conditions worsened in the winter, increasing the likelihood of another below-average growing season in 2003 (see **Map 1**).
- During 2002 corn production was 10 percent below the year ago level, and soybean production was down 6 percent.
- Cattle production was also disrupted as shortages of hay and pasture forced ranchers to sell cattle at low prices and liquidate breeding stock.



Depopulation in rural areas is a continuing challenge.

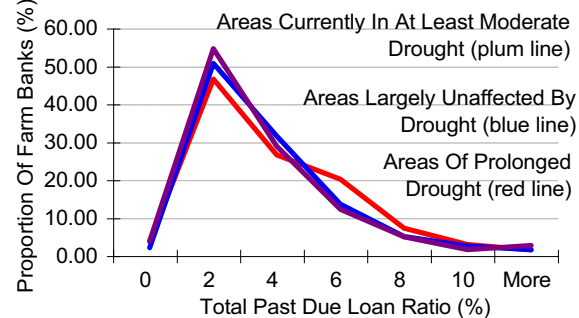
- Forty-four of South Dakota's 67 counties have lost population since 1970, and 5 of those counties also lost population at an increasing rate in the 1990s (see **Map 2**).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas to seek better employment opportunities.
- Counties that are losing population more rapidly could lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.



Severe drought conditions threaten asset quality among many of the state's farm banks.

- Much of South Dakota currently is in "severe" to "exceptional" drought, following at least moderate drought conditions in 2001. These weather problems follow four years of very low crop prices that left many farm banks holding substantial levels of carryover debt.
- The drought's effects likely will not be fully evident until late 2002 and spring 2003 when operating loans come due. **Chart 2** shows that farm banks in areas of prolonged drought (predominantly in Nebraska and northwest Kansas) report higher loan delinquency levels than do insured institutions in less affected areas.
- Positively, the September 2002 median capital ratio of 11.6 percent reported by South Dakota farm banks remains high by historical standards and is

Chart 2: Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency Levels



Source: Bank Call Reports, farm banks headquartered in Kansas City Region

well above levels present during the 1980s farm crisis and 1988 drought.

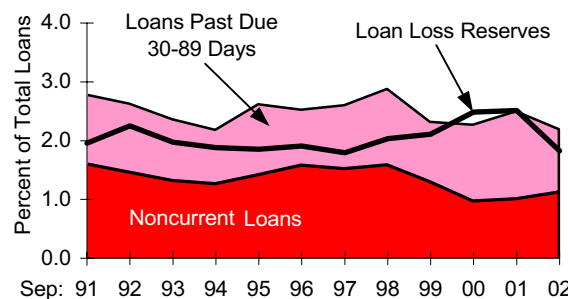
South Dakota's community banks report sound asset quality despite the economic slowdown.

- Noncurrent and past-due loan levels remain moderate, and charge-off rates also remain low (see **Chart 3**).
- Loan loss reserve levels have declined in proportion to total loans, but appear to be keeping pace with the level of problem loans.

Community banks in South Dakota continue to face funding challenges.

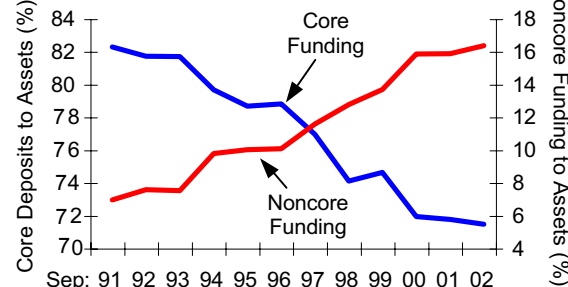
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive forces from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets (see **Chart 4**).
- To counter declining deposits, community banks headquartered in South Dakota increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, increased dramatically in the 1990s. In five years, the proportion of banks with borrowings making up at least 10 percent of total funds increased from 2.2 percent in September 1997 to 8.7 percent in September 2002.
- Although banks have benefited from inflows of deposits because of the recent recession and large stock market losses, growth of noncore funds continues to outpace increases in core deposits among the Kansas City Region's community banks.

Chart 3: Past-Due Loans and Reserves Remain Stable



Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in South Dakota, excluding de novos and specialty banks

Chart 4: Adverse Funding Trends Continue Among Community Banks



Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in South Dakota, excluding de novo and specialty banks

South Dakota at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	97	97	102	107	108
Total Assets (in thousands)	72,180,727	39,011,463	37,886,116	31,089,076	29,066,120
New Institutions (# < 3 years)	1	1	1	3	6
New Institutions (# < 9 years)	6	6	8	7	7
Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	11.47	11.51	11.19	10.78	10.77
Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	2.06%	1.95%	1.64%	2.13%	2.68%
Past-Due and Nonaccrual ≥ 5%	10	12	16	18	20
ALLL/Total Loans (median %)	1.72%	1.73%	1.66%	1.88%	1.66%
ALLL/Noncurrent Loans (median multiple)	1.88	1.95	2.63	2.01	1.59
Net Loan Losses/Loans (aggregate)	4.85%	2.79%	3.81%	3.44%	3.45%
Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	5	4	3	3	3
Percent Unprofitable	5.15%	4.12%	2.94%	2.80%	2.78%
Return on Assets (median %)	1.30	1.35	1.54	1.45	1.44
25th Percentile	0.85	0.99	1.06	0.92	1.03
Net Interest Margin (median %)	4.42%	4.41%	4.63%	4.48%	4.67%
Yield on Earning Assets (median)	7.13%	8.47%	8.78%	8.26%	8.67%
Cost of Funding Earning Assets (median)	2.69%	4.04%	4.10%	3.76%	4.00%
Provisions to Avg. Assets (median)	0.08%	0.12%	0.12%	0.08%	0.16%
Noninterest Income to Avg. Assets (median)	0.63%	0.60%	0.64%	0.66%	0.67%
Overhead to Avg. Assets (median)	3.13%	3.09%	2.96%	2.96%	2.96%
Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	82.15%	81.85%	81.83%	79.53%	80.09%
Loans to Assets (median %)	67.56%	67.53%	66.58%	66.44%	66.38%
Brokered Deposits (# of Institutions)	24	28	28	24	27
Bro. Deps./Assets (median for above inst.)	3.26%	2.51%	2.13%	3.11%	1.60%
Noncore Funding to Assets (median)	15.85%	14.17%	14.14%	12.79%	11.28%
Core Funding to Assets (median)	71.20%	72.06%	72.10%	74.30%	74.85%
Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	60	62	64	65	67
National	19	18	21	23	22
State Member	14	13	13	15	15
S&L	0	0	0	0	0
Savings Bank	4	4	4	4	4
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	78	8,142,410	80.41%	11.28%	
Sioux Falls SD	14	63,441,800	14.43%	87.89%	
Rapid City SD	5	596,517	5.15%	0.83%	